Alberta

2012-13 **Third Quarter** Fiscal Update and Economic Statement

February 2013

Alberta Treasury Board and Finance

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ACTUAL RESULTS

For the first nine months of 2012-13

Method of Consolidation

The *2012-13 Third Quarter Fiscal Update and Economic Statement* reports on the same scope, using the same method of consolidation, as presented in *Budget 2012*.

The results of all government departments, funds and agencies, except those designated as government business enterprises, are consolidated on a line-by-line basis. Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of provincial agencies designated as government business enterprises are included on the modified equity basis, the equity being computed in accordance with International Financial Reporting Standards applicable to those entities.

The accounts of the Alberta Innovates corporations and the Crown-controlled SUCH sector organizations such as school boards, universities, colleges, technical institutes, and Alberta Health Services that are controlled by the government are not included in this fiscal summary. These Crown-controlled entities are consolidated on a line-by-line basis in the consolidated financial statements forming part of the *Government of Alberta Annual Report*.

Basis of Financial Reporting

The consolidated fiscal summary reports revenue (including gains from disposal of tangible capital assets), expense (including amortization, loss on disposal and write-down of tangible capital assets), and surplus / (deficit).

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue.

Expense includes the province's cash payments towards the unfunded pension liabilities. Expense excludes the change in the unfunded pension liabilities, which is a non-cash expense that does not affect borrowing requirements.

Debt servicing costs include interest payable and amortization of discount on debt issues.

Compliance with Legislation

The *Government Accountability Act* requires reporting on the accuracy of the consolidated fiscal plan for a fiscal year, with respect to the first nine months of the fiscal year, on or before February 28. The Act gives the Minister of Finance discretion over the form of the report.

The *2012-13 Third Quarter Fiscal Update and Economic Statement* provides comparisons between the nine month estimates and actual results for various categories of revenue and expense, capital investment, the surplus / (deficit) and financing (borrowing) requirements, as well as an estimate for the year-end balance of the Sustainability Fund, which indicates the net financial position. Also provided is an updated outlook on the Alberta and global economies, including various economic and energy assumptions. This report, as presented, fulfils the requirements of the *Government Accountability Act*.

Under the *Fiscal Responsibility Act*, operating expense increases, excluding those for dedicated revenue-operating expense, are limited to 1% of total budgeted ministry operating expense. In addition, actual expense for a fiscal year shall not exceed revenue plus any amounts allocated from the Sustainability Fund.

The results for the first nine months of 2012-13 are in compliance with the requirements of the *Fiscal Responsibility Act*.

2012-13 THIRD QUARTER FISCAL UPDATE

Highlights

Actual results for first nine months

The deficit for the first nine months of 2012-13 was $1,980 million, $483 million higher than expected, primarily due to lower resource revenue and increases for unanticipated disaster / emergency assistance. In-year savings are now expected to exceed $500 million, up from the budget estimate of $360 million.

Revenue for the first nine months was $28,064 million, $763 million lower than expected.

- Resource revenue was $2,431 million lower, mainly due to the negative impact of global economic uncertainty on conventional oil and natural gas prices, an increased discount for Alberta bitumen prices relative to conventional oil prices arising from pipeline and market access issues, a higher exchange rate and lower land lease sales revenue.
- This is partly offset by higher corporate income tax cash payments, improved realized investment income and associated management fees, increased revenue from gaming and liquor sales, and higher demand for motor vehicle licences, agriculture insurance and other volume-driven fees.

Expense for the first nine months was $30,044 million, a decrease of $280 million from the nine month estimate, due mainly to lower operating expense and capital grants, partly offset by provision of in-year disaster / emergency assistance.

- Operating expense was lower than estimated by $447 million primarily due to timing of grant payments in Health and Education, changes made to student assistance programs, lower-than-expected highway maintenance activity, lower-than-reported claims for 2011 AgriStability assistance and other timing changes.
- Capital grants and other support expense was $347 million lower than estimated mainly due to re-profiling of health and other projects to future years, timing of cash flows for school projects, partly offset by advanced municipal water and wastewater grants.
- Disaster / emergency assistance of $587 million was provided primarily for forest-fire fighting and agriculture hail indemnity and crop insurance payments related to severe weather.

Capital investment during the first nine months of 2012-13 was $1,367 million, $52 million lower than estimated. Accelerated progress on Edmonton and Calgary ring roads was more than offset by re-profiling of other projects and cash flows.

The balance in the **Sustainability Fund** on December 31, 2012 was $3.4 billion. The year-end balance on March 31, 2013 is expected to be between $2.5 and $3 billion.

The 2012-13 deficit is forecast to be between $3.5 and $4 billion, reflecting the actual results for the first nine months and a continued deterioration in non-renewable resource revenue.

CONSOLIDATED FISCAL SUMMARY [a]

for the nine months ended December 31, 2012

(millions of dollars)

	2012-13 Budget	9 Month Estimate	9 Month Actual	Change from Estimate
Revenue	40,263	28,827	**28,064**	(763)
Expense [b]				
Program expense				
Operating expense	36,526	26,922	**26,475**	(447)
Capital grants and other support	3,526	2,370	**2,023**	(347)
Disaster / emergency assistance	44	26	**587**	561
Capital amortization	882	606	**581**	(25)
In-year savings	(360)	-	-	-
Debt servicing costs	531	400	**378**	(22)
Total Expense	41,149	30,324	**30,044**	(280)
Surplus / (Deficit)	(886)	(1,497)	**(1,980)**	(483)

[a] For fiscal policy purposes under the *Fiscal Responsibility Act*. Does not include revenue or expense of Crown-controlled SUCH sector organizations or Alberta Innovates corporations, or changes in pension liabilities.

[b] Capital Investment (not included in expense): 2,218 1,419 **1,367** (52)

REVENUE

(millions of dollars)

	2012-13 Budget	9 Month Estimate	9 Month Actual	Change from Estimate
Income Taxes				
Personal income tax	9,314	6,793	**6,944**	151
Corporate income tax	4,471	2,445	**2,962**	517
	13,785	9,238	**9,906**	668
Other Taxes				
Education property tax	1,762	1,313	**1,313**	-
Tobacco tax	925	694	**697**	3
Fuel tax	850	638	**651**	13
Insurance taxes	344	258	**237**	(21)
Freehold mineral rights tax	152	113	**98**	(15)
Tourism levy	73	55	**64**	9
	4,106	3,071	**3,060**	(11)
Non-Renewable Resource Revenue				
Bitumen royalty	5,653	3,909	**3,011**	(898)
Crude oil royalty	2,100	1,601	**1,427**	(174)
Natural gas and by-products royalty	1,222	936	**345**	(591)
Bonuses and sales of Crown leases	2,037	1,583	**827**	(756)
Rentals and fees	151	113	**132**	19
Coal royalty	35	25	**(6)**	(31)
	11,198	8,167	**5,736**	(2,431)
Transfers from Government of Canada				
Canada Health Transfer	2,358	1,750	**1,883**	133
Canada Social Transfer	1,310	980	**982**	2
Agriculture support programs	322	307	**256**	(51)
Labour market agreements [a]	173	130	**143**	13
Infrastructure support	333	209	**245**	36
Other	419	282	**238**	(44)
	4,915	3,658	**3,747**	89
Investment Income				
Alberta Heritage Savings Trust Fund	986	740	**967**	227
Endowment funds	176	132	**182**	50
Alberta Capital Finance Authority	254	191	**197**	6
Sustainability Fund	165	124	**280**	156
Agriculture Financial Services Corporation	130	97	**84**	(13)
Debt Retirement Account	15	11	**14**	3
Other	68	47	**56**	9
	1,794	1,342	**1,780**	438
Net Income from Commercial Operations				
AGLC - gaming / lottery	1,336	1,002	**1,133**	131
AGLC - liquor	701	526	**580**	54
Alberta Treasury Branches	214	161	**168**	7
Other	28	21	**21**	-
	2,279	1,710	**1,902**	192
Premiums, Fees and Licences				
Motor vehicle licences	429	297	**348**	51
Crop, hail and livestock insurance premiums	273	272	**310**	38
Energy industry levies	162	150	**147**	(3)
Land titles	68	51	**64**	13
Land and grazing	67	50	**50**	-
Supplementary health benefits premiums	58	42	**40**	(2)
Other	334	172	**193**	21
	1,391	1,034	**1,152**	118
Other				
AIMCo investment management charges	138	104	**167**	63
Fines and penalties	120	90	**106**	16
Refunds of expense	120	92	**150**	58
Climate change and emissions management	70	53	**43**	(10)
Miscellaneous	347	268	**315**	47
	795	607	**781**	174
Total Revenue	40,263	28,827	**28,064**	(763)

[a] The nine month estimate for Labour Market Agreements revenue of $171 million published in the *2012-13 Second Quarter Fiscal Update and Economic Statement* should have been $130 million, and is being re-stated in the Third Quarter report.

OPERATING EXPENSE BY MINISTRY [a]

(millions of dollars)

	2012-13 Budget	9 Month Estimate	9 Month Actual	Change from Estimate
Investing in Families and Communities				
Culture	176	100	**104**	4
Health	16,499	12,110	**11,869**	(241)
Human Services	4,271	3,131	**3,125**	(6)
Justice and Solicitor General	1,270	927	**920**	(7)
Municipal Affairs	405	325	**311**	(14)
Tourism, Parks and Recreation	163	122	**117**	(5)
Securing Alberta's Economic Future				
Education	6,179	4,509	**4,477**	(32)
Enterprise and Advanced Education	2,930	2,153	**2,100**	(53)
Infrastructure	505	365	**356**	(9)
Service Alberta	266	193	**171**	(22)
Transportation	475	365	**354**	(11)
Treasury Board and Finance	1,211	948	**968**	20
Advancing World-leading Resource Stewardship				
Aboriginal Relations	154	106	**110**	4
Agriculture and Rural Development	945	807	**739**	(68)
Energy	383	250	**280**	30
Environment and Sustainable Resource Development	472	350	**332**	(18)
International and Intergovernmental Relations	36	21	**19**	(2)
Other				
Executive Council	54	41	**34**	(7)
Legislative Assembly	132	99	**89**	(10)
Total Operating Expense	36,526	26,922	**26,475**	(447)

[a] Budget numbers have been restated to reflect the re-organization of government departments established by Orders in Council under the *Government Organization Act*, on May 8, May 24 and July 11, 2012.

DISASTER / EMERGENCY ASSISTANCE

(millions of dollars)

	2012-13 Budget	9 Month Estimate	9 Month Actual	Change from Estimate
Agriculture and Rural Development				
Slave Lake Wildfire Recovery	2	2	**3**	1
Insurance claims due to severe weather	-	-	**269**	269
Municipal Affairs				
Slave Lake Wildfire Recovery	42	24	**8**	(16)
Municipal flood assistance	-	-	**60**	60
Environment and Sustainable Resource Development				
Forest fire-fighting	-	-	**241**	241
Mountain pine beetle infestations	-	-	**6**	6
Total Disaster / Emergency Assistance	44	26	**587**	561

CAPITAL GRANTS AND OTHER SUPPORT [a]

(millions of dollars)

	2012-13 Budget	9 Month Estimate	9 Month Actual	Change from Estimate
Investing in Families and Communities				
Culture	53	28	**18**	(10)
Health	83	23	**30**	7
Municipal Affairs	894	882	**852**	(30)
Tourism, Parks and Recreation	1	1	**-**	(1)
Securing Alberta's Economic Future				
Education	362	288	**223**	(65)
Enterprise and Advanced Education	76	70	**62**	(8)
Infrastructure	721	470	**256**	(214)
Transportation	958	395	**466**	71
Treasury Board and Finance	102	76	**-**	(76)
Advancing World-leading Resource Stewardship				
Agriculture and Rural Development	39	35	**26**	(9)
Energy	138	40	**41**	1
Environment and Sustainable Resource Development	99	62	**49**	(13)
Total Capital Grants and Other Support	3,526	2,370	**2,023**	(347)

[a] Included in program expense. Includes support for project planning, grants-in-kind for health facilities and accommodation and facility preservation expense. Ministries not listed above have no capital grants or other support or the amount rounds to less than $1 million.

CAPITAL INVESTMENT / INVENTORY ACQUISITION [a]

(millions of dollars)

	2012-13 Budget	9 Month Estimate	9 Month Actual	Change from Estimate
Investing in Families and Communities				
Culture	3	2	**1**	(1)
Health	77	53	**34**	(19)
Human Services	11	8	**7**	(1)
Justice and Solicitor General	109	79	**69**	(10)
Municipal Affairs	64	46	**7**	(39)
Tourism, Parks and Recreation	14	10	**9**	(1)
Securing Alberta's Economic Future				
Education	4	3	**3**	-
Enterprise and Advanced Education	5	4	**3**	(1)
Infrastructure	398	255	**163**	(92)
Service Alberta	53	17	**18**	1
Transportation	1,384	875	**986**	111
Treasury Board and Finance	33	25	**30**	5
Advancing World-leading Resource Stewardship				
Agriculture and Rural Development	11	8	**4**	(4)
Energy	17	11	**6**	(5)
Environment and Sustainable Resource Development	32	21	**27**	6
Other				
Legislative Assembly	3	2	**-**	(2)
Total Capital Investment / Inventory Purchases	2,218	1,419	**1,367**	(52)

[a] Not included in program expense. Ministries not listed above have no capital investment or inventory acquisition or the amount rounds to less that $1 million.

CAPITAL AMORTIZATION / INVENTORY CONSUMPTION [a]

(millions of dollars)

	2012-13 Budget	9 Month Estimate	9 Month Actual	Change from Estimate
Investing in Families and Communities				
Culture	4	2	**2**	-
Health	60	48	**42**	(6)
Human Services	9	5	**6**	1
Justice and Solicitor General	23	17	**6**	(11)
Municipal Affairs	30	22	**21**	(1)
Tourism, Parks and Recreation	18	14	**13**	(1)
Securing Alberta's Economic Future				
Education	1	1	**3**	2
Enterprise and Advanced Education	6	4	**4**	-
Infrastructure	137	93	**98**	5
Service Alberta	52	32	**32**	-
Transportation	452	302	**302**	-
Treasury Board and Finance	13	10	**7**	(3)
Advancing World-leading Resource Stewardship				
Agriculture and Rural Development	16	11	**11**	-
Energy	21	16	**13**	(3)
Environment and Sustainable Resource Development	39	28	**21**	(7)
Other				
Legislative Assembly	1	1	-	(1)
Total Capital Amortization / Inventory Consumption	882	606	**581**	(25)

[a] Included in program expense. Ministries not listed above have no capital amortization or inventory consumption or the amount rounds to less than $1 million.

2012-13 FINANCING REQUIREMENTS

(millions of dollars)

	2012-13 Budget	9 Month Estimate	9 Month Actual	Change from Estimate
Financing Requirements / Completed to Date				
Direct borrowing for capital purposes[a]	-	-	-	-
Term debt borrowing for provincial corporations[b]:				
Agriculture Financial Services Corporation	353	225	**225**	-
Alberta Capital Finance Authority	2,585	2,585	**2,912**	327
Alberta Treasury Branches	550	550	**1,000**	450
Total Financing Requirements / Completed to Date	3,488	3,360	**4,137**	777

[a] In January 2013, $248 million was borrowed as part of the estimated $1.1 billion in borrowing for Highway 63 twinning, announced October 19, 2012.

[b] Does not include $750 million of borrowing for Alberta Capital Finance Authority issued in February 2013.

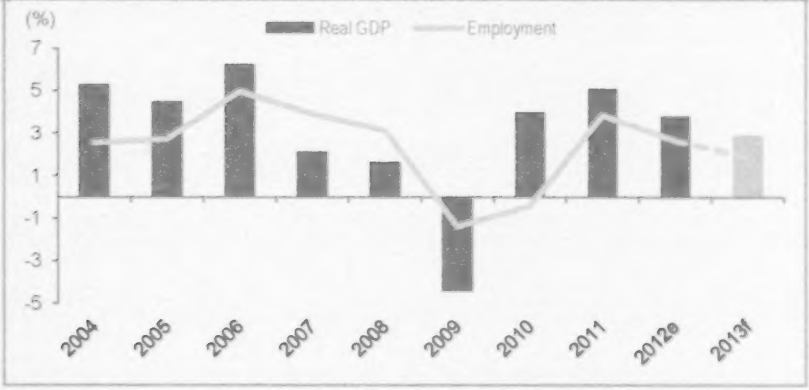
ECONOMIC OUTLOOK

Alberta economy transitions to more moderate growth

In a sluggish global economy, Alberta has moved against the grain. The provincial economy grew by an estimated 3.8% in 2012, in line with the budget forecast and roughly double the national increase. Alberta led the provinces in employment growth in 2012; the 2.7% increase was exactly in line with the budget forecast.

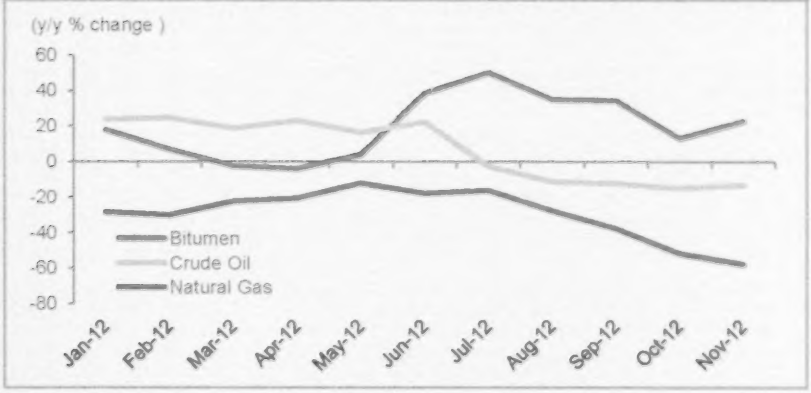
Growth in real Gross Domestic Product (GDP) is now expected to downshift to a more sustainable rate of 2.9% in 2013 (Figure 1), below the 3.8% estimated at budget. The moderation reflects weaker market conditions for the province's oil industry. Rising oil production has bumped up against pipeline constraints in North America, forcing Alberta producers to take steep price discounts relative to oil produced elsewhere. This has had negative impacts on Alberta's and Canada's economy (see pg. 12).

FIGURE 1. Growth in Alberta Real Gross Domestic Product and Employment



Source: Statistics Canada and Alberta Treasury Board and Finance

FIGURE 2. Alberta Meters Drilled*



Source: Energy Resources Conservation Board
*3 month moving average

Other developments have been more favourable than expected at budget. Soaring net migration has boosted Alberta's housing market, contributed to a surge in consumer spending, and helped keep wage pressures contained. Households drove much of Alberta's economic growth in the second half of 2012, and are expected to play another key role in 2013.

Alberta's nominal GDP, the value of output in current prices, has been hit much harder by lower energy prices than real economic activity. In 2013, nominal GDP is expected to grow by 5.0%, down from 7.7% at budget. This has significantly impacted government revenues (see pg. 15).

Alberta Business Sector

After a sharp run-up in late 2011 and early 2012, most indicators of business activity and output have moderated. Lower energy prices have contributed to a pullback in drilling activity (Figure 2) as well as weaker growth in oil exports and manufacturing shipments.

Oil industry encounters pipeline constraints and price discounts

Rising oil sands production continues to add significantly to Alberta's economic growth. However, oil prices have softened and Alberta producers are facing steep price discounts on their production (see pg. 12). WTI prices are expected to average US$91.82/bbl this fiscal year, down from US$92.50/bbl at second quarter and from US$99.25/bbl at budget. A number of factors have weighed on the WTI price including: rising production, a lack of takeaway capacity to alternate markets, and weak demand due to the recession in the Eurozone and a slowdown in emerging markets.

A softer outlook for prices has dampened growth expectations for business investment in 2013 relative to budget. Oilsands investment is still expected to proceed, but at a more

ECONOMIC OUTLOOK

cautious pace and with an emphasis on containing costs.

Natural gas prices are forecast to remain depressed at $2.26/GJ in 2012-13, reflecting a glut of North American supply. This is up slightly from the second quarter estimate of $2.07/GJ, but down from $3.00/GJ at budget. A further drop in natural gas exports is forecast in 2013.

Lower energy prices have negatively impacted corporate net operating surplus (a measure of profits), which dropped by an estimated 6.9% in 2012. The forecast for 2013 has been revised down to 6.6% from 17.5% at budget, mainly reflecting the weaker outlook for energy prices.

Strong conditions in other industries

Business conditions in non-energy sectors have generally been favourable in Alberta. Building construction rebounded in 2012, and permit data suggest further improvement in 2013. In the agricultural industry, cash receipts are rising, and producers are expected to continue to benefit from strong prices. In the forest product sector, sawmills have been ramping up production to near record levels, which partly reflects improvement in the US housing sector.

Business costs pressures are expected to stay fairly contained in the near term, as soaring migration limits growth in labour costs and interest rates stay near record lows.

Alberta Household Sector

Households to remain key economic drivers in near term

Economic activity in Alberta has shifted from businesses to households heading into 2013. A strong labour market has attracted people from other provinces and countries; net migration hit levels not seen since the early 1980s in the third quarter of 2012.

Population growth continues to far outpace the rest of Canada, and the gap has widened markedly (Figure 3).

Rising net migration and a robust labour market have lifted consumer spending, with retail sales rising an estimated 8.2% in 2012. These factors have also supported gains in the housing market, with housing starts up nearly 30% last year.

The momentum from the household sector will support Alberta's economic expansion again in 2013. The labour market is expected to remain strong, with the unemployment rate forecast to stay near current levels and employment expanding at a healthy pace of 1.9%. New jobs will continue to draw migrants, supporting a population growth forecast of 2.6%.

Labour market and population gains will drive another healthy increase in real consumer spending, forecast at 3.7% in 2013. Housing starts are also expected to stay strong, at 32,600 in 2013.

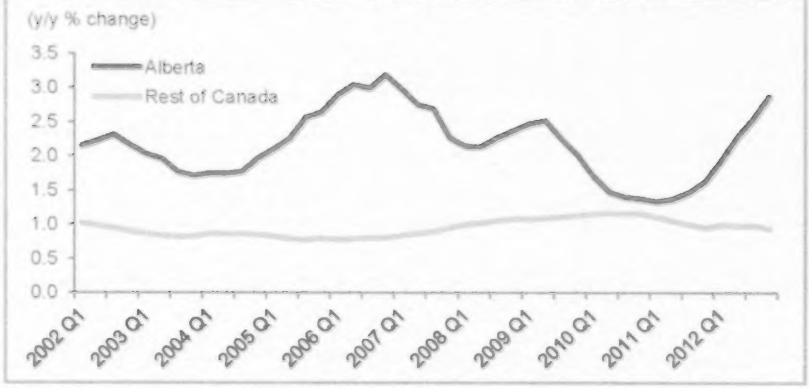
Total primary household income is expected to grow at a healthy pace of 5.5% in 2013, down from 7.3% last year.

Inflation has been weak despite strength in the Alberta economy. Consumer price inflation averaged 1.1% in 2012 and ended the year with a 0.0% reading in December. Inflation is expected to stay subdued at 1.8% in 2013.

Risks

- Pipeline constraints could weaken oil prices more than expected. With little spare pipeline capacity, even minor disruptions to transportation and refining have a large impact on oil prices.
- After the tax deal in January, more fiscal hurdles loom in the US, including agreement on spending cuts, passing a new budget and extending the debt ceiling in May. Failure to overcome these hurdles would hurt the US economy, with negative implications for Alberta and Canada.
- A deepening of the recession in Europe could contribute to another slowdown in emerging markets, weighing on commodity prices.
- Upside risks to the outlook include the announcement of new pipeline capacity, a timely resolution to the fiscal challenges in the US, and progress in the Eurozone.

FIGURE 3. Population Growth



Source: Statistics Canada and Alberta Treasury Board and Finance

OIL PRICES

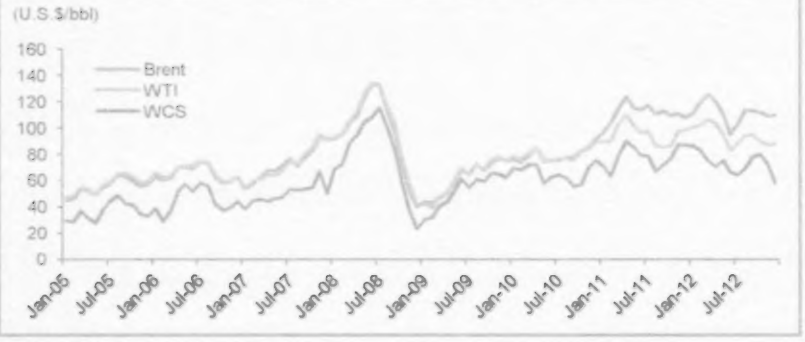
The impact of widening oil price differentials

Alberta oil production is currently selling at substantial discounts relative to North American and global benchmark oil prices (Figure 1). In December, the price discount between Western Canadian Select (WCS), the Alberta heavy oil benchmark, and West Texas Intermediate (WTI), the North American light oil benchmark, increased to around record levels. This has hurt the value of Alberta's exports, corporate profits, and nominal GDP.

Why Have Oil Price Differentials Widened?

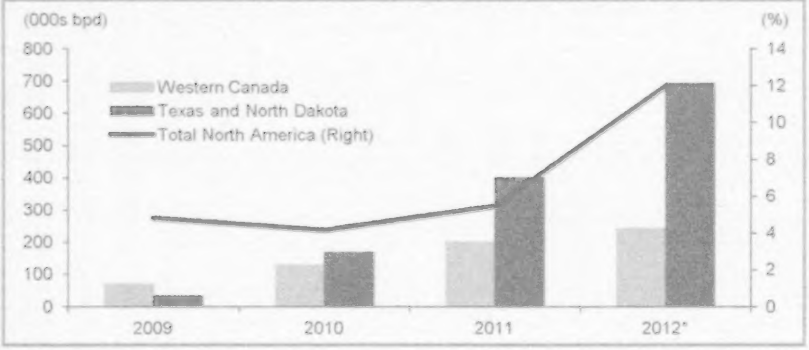
The deep discounts on Alberta crude oil reflect constraints to pipeline capacity in the face of rising North American production (Figure 2). Crude oil production in the United States has surged over the past few years, with growth coming mainly from oil plays in North Dakota and Texas. Production also continues to grow from Western Canada, primarily from Alberta's oilsands. Pipeline infrastructure from these regions has not kept pace with production growth, resulting in pipeline bottlenecks and large increases in crude inventories along North American major pipeline systems and at Cushing, Oklahoma (Figure 3). The situation of over-supply, combined with few transportation options, has led to increased price volatility and deep discounts for landlocked crudes, including oil coming from Alberta. This is especially the case for Alberta's heavy crude, which is primarily diluted bitumen. In 2012-13, the WTI-WCS differential (or the difference between the price of WTI and WCS as a percentage of WTI) is now forecast to average 23%, compared to the budget forecast of 17%. In addition, WTI has been subject to large discounts to the other world light oil benchmark, the North Sea 'Brent' price.

FIGURE 1. Benchmark Crude Oil Prices



Source: Alberta Energy, Reuters

FIGURE 2. Annual Change in North American Crude Oil Production



Source: National Energy Board, U.S. Energy Information Agency
Note: 2012 estimate based on year-to-date

Crude Exports and the Canadian Economy

As a small open economy, Canada relies heavily on exports. A large and growing portion of Canada's exports come from Alberta crude production (Figure 4). In 2012, Alberta crude exports comprised about 17% of all Canadian exports to the US, increasing from a 3.7% share in 2002. Including all export destinations, Alberta crude accounts for 13% of total Canadian exports, up from 3.2% a decade ago. This illustrates the growing importance of oil exports to the Canadian economy.

Continued growth in oil exports is threatened by pipeline constraints in the US and a lack of pipelines to alternative, high growth global markets. These access to market issues have already translated into steep price discounts, with negative implications for Alberta and Canada.

OIL PRICES

Why the Differential Matters?

Oil prices and nominal output

There is a strong link between oil prices and Alberta's nominal GDP, which is the total value of goods and services produced in the province (Figure 5).

Wider differentials and lower crude prices directly reduce the value of exports and Alberta corporate profits. This shrinks the government's revenue base, nominal GDP, and has the largest impact on royalty revenue (see pg. 15).

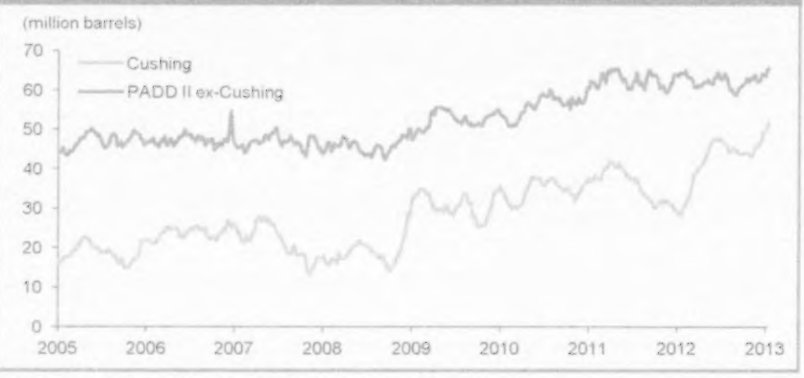
For Canada as a whole, widening differentials have weakened the country's terms of trade. That is, they have lowered the price Canada receives for its crude exports (which are mainly tied to WTI and WCS prices) relative to the price paid for crude imports (which are mainly tied to Brent prices). This has reduced net exports, and resulted in less income for governments and businesses.

Impact on the real economy

Wider differentials also have an impact on real economic activity. They mean lower cash flows to producers, which influences investment and production decisions. While oilsands projects are generally profitable and still proceeding, some producers have outlined a more cautious investment approach in the next few years due to market pressures. In the conventional oil sector, drilling activity has already slowed in the second half of 2012, in part reflecting lower prices. In addition, the decline in overall income from the wider differential ultimately translates into weaker real domestic consumption by households and government.

The Bank of Canada estimates that the widening oil price differential, together with temporary oil supply disruptions, reduced Canadian real GDP growth by 0.4 percentage points annualized in the second half of 2012.

FIGURE 3. Weekly Stocks of Crude Oil



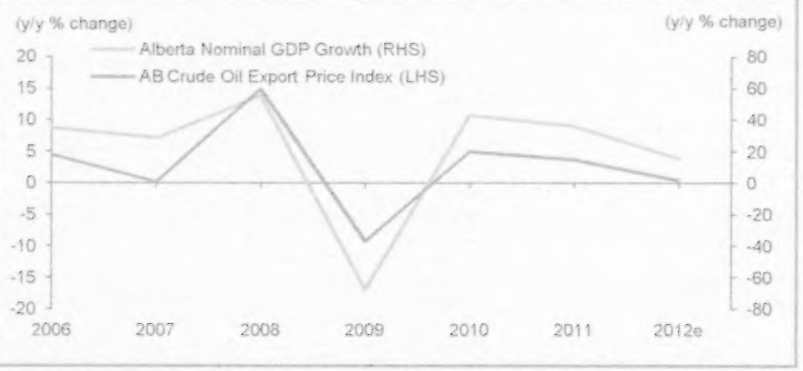
Source: U.S. Energy Information Agency

Note: PADD II includes the states of Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, Ohio, Oklahoma, Tennessee, and Wisconsin

FIGURE 4. Alberta Crude Exports as Share of Total Canadian Exports

Source: World Trade Atlas. Crude exports include crude oil and bitumen.

FIGURE 5. Alberta Nominal GDP and Crude Prices



Source: World Trade Atlas. The crude oil export index is derived by dividing the value of exports by the volume of exports.

Key Energy and Economic Assumptions

Fiscal Year Assumptions	2011-12 Actual	2012-13 Fiscal Year Forecast			
		Budget	1st Quarter	2nd Quarter	3rd Quarter
Prices					
Crude Oil Price					
WTI (US$/bbl)	97.33	99.25	92.75	92.50	91.82
Alberta Wellhead (Cdn$/bbl) [a]	88.31	90.18	82.07	78.91	79.46
WCS @ Hardisty (Cdn$/bbl)	80.72	83.28	72.11	70.00	70.62
Natural Gas Price					
Alberta Reference Price (Cdn$/GJ)	2.98	3.00	2.00	2.07	2.26
Production					
Conventional crude oil (000s barrels/day)	504	524	545	546	550
Raw bitumen (000s barrels/day)	1,785	2,045	1,998	2,005	1,917
Natural gas (billions of cubic feet)	4,439	4,085	4,111	4,155	4,184
Interest rates					
3-month Canada treasury bills (per cent)	0.89	1.00	1.10	1.00	0.95
10-year Canada bonds (per cent)	2.47	2.80	2.30	1.90	1.85
Exchange Rate (USc/Cdn$)	100.7	98.6	98.6	100.5	100.0

Calendar Year Assumptions	2012 Estimates	2013 Calendar Year Forecast	
		Budget	3rd Quarter
Gross Domestic Product			
Nominal (millions of dollars)	306,505 [b]	330,377	321,908
per cent change	3.8 [b]	7.7	5.0
Real (millions of real dollars)	285,185 [b] (2007 dollars)	204,470 (2002 dollars)	293,431 (2007 dollars)
per cent change	3.8 [b]	3.8	2.9
Other Indicators			
Employment (thousands)	2,150	2,200	2,190
per cent change	2.7	2.3	1.9
Unemployment rate (per cent)	4.6	4.6	4.5
Average Weekly Earnings (per cent change)	3.5 [b]	4.1	3.5
Primary Household Income (per cent change)	7.3 [b]	6.0 [c]	5.5
Corporate Net Operating Surplus (per cent change)	-6.9 [b]	17.5 [c]	6.6
Housing starts (number of units)	33,396	30,600	32,600
Alberta Consumer Price Index (per cent change)	1.1	2.3	1.8
Population (thousands)	3,874	3,919	3,973
per cent change	2.5	1.8	2.6

[a] Refers to the average price per barrel of Alberta light, medium and heavy oil.

[b] Alberta Treasury Board and Finance estimate.

[c] Based on old national accounts methodology of estimating personal income and corporate profits.

Impact of recent developments on government revenue

Revenues remain weak despite strong economy

Alberta's economy continues to record impressive gains (see pg. 10). However, Alberta's strong real GDP growth and its revenue situation have been somewhat disconnected. While oil production continues to grow, lower prices on that production have weighed heavily on the growth in the nominal value of goods and services produced in Alberta. This has had the largest impact on royalty revenue, which is highly price sensitive.

Energy revenue forecast largely unchanged from second quarter

Overall energy revenue forecast for 2012-13 is roughly in line with second quarter, but remains significantly below *Budget 2012*.

Compared to second quarter, slightly less bitumen royalty is expected in 2012-13, due to a small downward revision to production. The WTI-WCS differential, or the difference between the WTI price and the WCS price as a percentage of the WTI price, is forecast at 23%. This was largely unchanged from 24% at second quarter, but down significantly from the *Budget 2012* forecast of 17%.

The drop in expected bitumen royalties from second quarter has been offset by a stronger forecast for royalties from conventional oil. This reflects a slightly weaker forecast for the Canadian dollar relative to the US. The Bank of Canada's more tepid inflation outlook and softer stance on future interest rate hikes has slightly lowered expectations for the Canadian dollar to US¢100.0/CDN$ from US¢100.5/CDN$ at second quarter.

Reflecting recent price gains, the 2012-13 natural gas price forecast has been adjusted from $2.07/GJ at second quarter to $2.26 /GJ (see Figure 1). This has led to a small increase in the forecast for natural gas royalties. Growing supplies of US shale gas in the face of tepid economic growth continue to hurt natural gas prices, despite the upward revision.

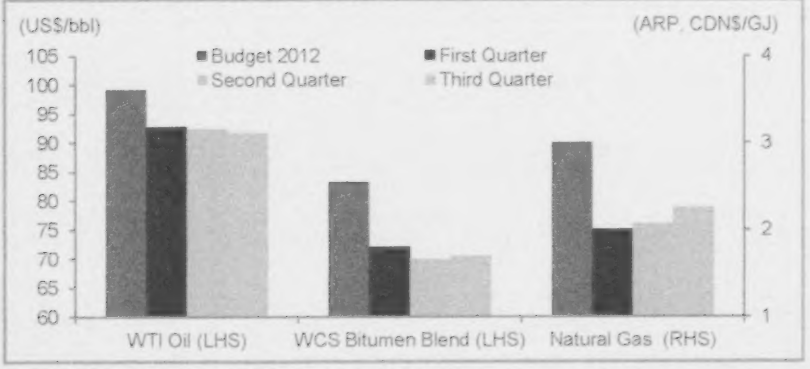
The forecast for Alberta land sales has declined slightly from second quarter, due to a lower price received per acre. Mainly reflecting weaker-than-expected oil prices, including the wider differential, non-renewable resource revenues will be below *Budget 2012* estimates.

Income tax forecast holds fairly steady

The forecast for corporate net operating surplus (a measure of corporate profits) has been revised down due to the effects of lower energy prices. Despite this downward adjustment, corporate income tax revenue is only slightly lower than forecast at second quarter in 2012-13 due to higher-than-expected tax collections in the first nine months of the fiscal year.

A strong labour market, including healthy wage and job gains and strong year-to-date labour income growth in 2012 is expected to drive a solid increase in personal income tax revenue in 2012-13. The forecast for personal income tax revenue is largely unchanged from second quarter, but up from budget on stronger tax assessment data as well as an upward revision in the primary household income forecast (the new measure of personal income).

FIGURE 1. Key Energy Price Assumptions for 2012-13



Source: Alberta Energy

Alberta